MULTINATIONAL CORPORATIONS AND ECONOMIC GROWTH:

THE CASE OF THE MINING INDUSTRY IN CHILE

A THESIS

SUBMITTED TO THE FACULTY OF THE

GRADUATE SCHOOL OF ECONOMICS

ATLANTA UNIVERSITY

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR

THE DEGREE OF MASTER OF ARTS

BY

WILLIAM MOHAMMED SHERIFF

DEPARTMENT OF ECONOMICS

ATLANTA, GEORGIA

JULY 1984

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CHAPTER I

INTRODUCTION

For the past two decades, economists and policy makers have been involved in a search for measures to accelerate the real growth rates of national incomes. Economists and politicians from all nations, rich and poor, capitalist, socialist, and mixed have had discussions on economic growth in and out of developing countries as a focusing point. Chile, like many other developing countries in and out of Latin America, fall in this category because Chile's economic growth is often assessed by the degree to which national outputs and incomes are growing.

Until 1964, Chile experienced a slow economic growth. From 1950 - 1964, "Chile's Gross Domestic Product rose at an average real annual growth rate of 3.6 percent and per capita Gross Domestic Product inched up only an average 1.6 percent per year."[1] Even more importantly, the overall gain was not equally distributed among different sectors of the economy. Most of the gains in terms of export earnings came from tertiary activities, commerce and government services (see Table 1).

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[1] _Chile After Allende: Prospects for Business in a Changing Market_ (Hammarskjold Plaza, New York, 1975), p. 2.

TABLE 1

ECONOMIC ACTIVITY BY SECTOR 1950-1964
(% GDP AT CONSTANT MARKET PRICES)

	1950-54	1955-59	1960-63	1964
1. Primary Activities	18.6	16.6	14.8	15.9
a. Agriculture	13.1	12.2	9.8	9.8
b. Fishing	0.2	0.3	0.3	0.2
c. Mining	5.3	4.2	4.6	5.9
2. Secondary Activities	25.1	27.4	27.9	23.8
a. Industry	21.8	23.9	23.6	19.3
b. Construction	2.3	2.4	3.1	3.4
c. Electricity, gas and water	1.0	1.1	1.2	1.1
3. Tertiary Activities	56.6	55.7	57.0	59.6
a. Trade	18.8	19.4	18.8	22.6
b. Transportation and communication	6.0	6.8	6.1	8.0
c. Financial services	3.7	3.4	3.6	2.7
d. Government services	8.4	8.8	9.1	8.0
e. Personal services	10.3	9.1	9.4	10.3
f. Home ownership	9.4	8.1	9.9	8.2
4. Adjustment of terms of Trade				
Gross Domestic Products	100.0	100.0	100.0	100.0

Source: Chile After Allende: Prospects for Business in a Changing Market (Hammarskjold Plaza, New York; 1975), p. 3.

By 1964, "these activities accounted for just under 60 percent of Chile's Gross Domestic Product, while agriculture, mining and industry constituted only 10 percent, 6 percent and 19 percent respectively of national production."[2] However, the Chilean economy was still characterized by a weak agricultural sector from 1950 to 1964. Not only did agriculture's contribution to GDP actually decline, but its growth rate lagged far behind population growth. In the decade of the 1950's "agriculture grew only 1.4 percent and dipped even further to 0.4 percent from 1960 to 1964."[3] The mining sector also suffered ups and downs in those same years. Accordingly, "mining represented only about 4 percent of the labor force while mineral exports accounted for 90 percent of total exports."[4] A large portion came from Chile's rich copper deposits followed by iron ore, nitrates, and iodine. As a result of this, "Chile did succeed in increasing copper production from 362,000 metric tons in 1950 to 620,800 metric tons in 1964."[5] However, copper prices fluctuated widely during these years which affected economic growth in Chile.

While it is unrealistic to expect copper to be displaced as number one exchange earner, other minerals such

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[2] Ibid., p. 2.

[3] Ibid., p. 4.

[4] Ibid., p. 4.

[5] Thomas L. Edwards, Economic Development and Reform in Chile (Michigan State University, 1972), p. 3.

as nitrates, iodine, and iron ore are increasing in importance to the overall economy of Chile. In short, the mining sector of Chile is determined to cash in on the continued growth in world demand for scarce mineral resources. This means that the quantity of Chile's many industrial minerals is important for balanced development of its economy in the long run.

In addition to being one of the world's leading exporter of natural resources, Chile also exports several chemical materials such as sodium sulfate and magnesium, metallic minerals, maganese, mercury, lead and zinc, phosphate, clays, borax, quartz and lime. Table 2 shows various mineral productions that could bring about industrial development to the Chilean economy. According to Table 2, quantity production of metallic minerals including maganese, mercury, lead and iron ore are on the rise, based on their production figures and investment made in the mining sector. This means, as long as the Chilean government encourages investment and production of various minerals, the Chilean economy could be able to realize additional growth in its economy. Table 2 shows also other mineral resources produced in Chile. After 1973, production of these minerals were on the upswing particularly in the gran mineria composed of Chuquicamata El Teniente, El Salvador, Exotica and Andina.

TABLE 2

MINERAL PRODUCTION, 1965-1973

Mineral	1965	1970	1971	1972	1973
Copper ('000 mitons)	641.9	691.6	708.3	716.7	746.8
Gran Mineria	538.3	540.5	571.3	592.5	615.9
Others	103.6	151.1	137.0	124.2	130.9
Nitrates ('000 gross tons)	1,158.0	669.3	823.2	709.2	676.1
Iodine ('000 net kg)	2,280.5	2,249.7	2,563.8	2,101.1	2,200.0
Iron Ore ('000 net tons)	12,721.0	11,264.9	11,227.6	8,603.9	9,314.2
Coal ('000 net tons)	1,628.5	1,509.8	1,622.9	1,457.7	1,303.4
Crude Oil ('000 m^3)	2,019.8	1,976.5	2,048.1	1,991.5	1,817.0
Calcium Carbonate ('000 tons)	1,750.9	2,091.1	2,087.6	n.a.	n.a.
Molybdenum (tons, fine)	3,603.0	5,701	6,321	3,096	n.a.
Lead (tons, fine)	1,269.0	892	880	250	n.a.
Zinc (tons, fine)	1,296.0	1,537	1,982	577	n.a.
Mercury (kg, fine)	12,347	13,360	17,307	18,623	n.a.
Magnese (tons)	25,972	26,723	23,838	7,958	n.a.

Source: BANCO GENERAL, based on data from Codelco, Enap, State Mines Service, National Statistics Institute (1976), p. 50.

Output from these five mines jumped almost 50 percent in the first half of 1974.

Nitrates which once served to place Chile on the map in the mining sector is once more on its way to recovery. Their new popularity on the world market is likely to be of long duration because there are no signs of shortage of petroleum-based fertilizers. Currently, "the producer, Sociedal Quimicay Manera expects to reach a target of 850,000 metric tons by 1983, 20 percent - plus over the 1973 figure."[6] The future for iron ore and steel is also bright in Chile's extractive industries. They were ranked second since 1960 in both value of production and export earnings. Like other mineral-rich countries, Chile seeks to diversify local mining operations and create more jobs.

This Latin American country's dependence on the mining industry, especially copper and other mineral resources (nitrates, iron ore, etc.) has actually led to an increase in export revenue. Foreign sales of minerals, "copper, iron ore, nitrates, iodine and mullendium accounted for 82 percent of the country's exchange earnings in 1971."[7] By 1971, however, their share swung upward more than the

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[6]Michael Monteon, Chile in the Nitrate Era - The Evolution of Economic Dependence, 1880-1930 (The University of Wisconsin Press, 1975), p. 80.

[7]Markos J. Mamalakis, The Growth and Structure of the Chilean Economy: From Independence to Allende (New Haven and London: Yale University Press, 1976), p. 100.

indicated percentage. On the other hand, the exchange earned by Chile's agricultural and industrial exports declined during the period reflecting crisis in both sectors. Again, "earnings from agricultural exports fell from 3.5 percent to 2.9 percent in 1973; the corresponding figures for industrial products were from 14.5 percent to 8.4 percent in the same year."[8]

The major challenge now facing the Chilean economy in years ahead may be feeding itself. Agriculture, which has always been of primary importance to the Chilean economy, has not contributed substantially both in terms of generating employment to a large percentage of the population and to the Gross National Product. Current projections indicate that, "agriculture contribution to employment and GNP is 5 percent and 12 percent respectively."[9] It will take a long time for Chile to achieve self sufficiency in agriculture production due to lack of investment in that sector. As a result of accelerated land reform, Chile's agricultural sector came close to a collapse during the 1970's. For instance, production of key foodstuff was set on a downward course with all major crops except corn experiencing sharp shortfalls in 1973. Table 3 shows the decline of various key foodstuff with the exception of corn within the agriculture sector of the Chilean economy

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[8]Markos J. Mamalakis, The Growth and Structure of the Chilean Economy: From Independence to Allende (New Haven and London: Yale University Press, 1976), p. 105.

[9]Ibid., p.117.

TABLE 3

AGRICULTURE PRODUCTION, 1970-1973
(THOUSANDS OF TONS)

Product	1970	1971	1972	1973	% Variation 1972-1973
Agriculture					
Wheat	1306.9	1368.0	1195.1	746.7	-37.6
Oats	110.6	112.0	111.3	109.1	-2.0
Barley	97.4	113.6	139.0	107.4	-22.8
Rye	10.7	12.3	12.4	8.5	-31.5
Corn	239.1	258.5	283.0	294.0	3.8
Rice	76.2	67.1	86.3	55.0	-36.3
Beans	65.6	72.2	82.9	65.0	-21.6
Lentils	11.2	12.0	10.7	9.8	-8.5
Chicken peans	5.4	7.2	9.3	4.1	-56.0
Potatoes	683.8	835.8	733.1	623.6	-15.0
Beef	1655.1	1390.7	1201.6	855.9	-28.8
Wine	400.5	525.1	670.2	536.2	-20.0
Animal Husbandry					
Cattle	150.1	129.6	137.0	113.8	-17.0
Sheep	29.5	26.6	25.2	24.1	- 4.4
Hogs	48.5	49.7	55.1	49.6	-10.0
Poultry	52.5	58.3	61.3	37.8	-38.4
Milk	895.1	940.0	935.0	931.0	-0.5
Eggs	1168.5	1052.6	1169.8	840.7	-28.2
Wool	19.8	18.1	16.2	15.8	-2.5

Source: Agriculture Planning Office (ODELA), 1976.

from the period 1970 to 1973.

According to Table 3, there was a decline of agricultural activities during the period 1970-1973 within the Chilean economy. Since then, the Chilean government has been moving fast enough to foster agricultural recovery. Financial measures already taken include negotiation of large financing for that sector as well as significant expansion in local credit line to livestock owners and farmers. As agriculture recovers, Chile's food industries will be an exciting position for local and foreign investors.

Such recovery in the agriculture sector will depend highly on making a trade-off between the mining and the agriculture sectors in terms of foreign investors increasing their financial and technical assistance to the agriculture sector. Even though it is not the writer's intention to specify where funds should be directed within the Chilean economy, it can be recommended that as long as more investment is being made within the non-mining sectors, there will be an increase in economic growth in Chile. With such recommendation, the multinationals still have the power to decide on which sectors they want to invest in based on their own profit motives. For those non-mining sectors whose benefits do not exceed their costs, they might become negatively affected. When this happens, the need for

Chile to seek additional foreign investment in these non-mining sectors becomes a must. This means the survival of the agriculture sector which is a non-mining sector will either collapse or continue to seek more foreign aid.

Problem Statement

The discussion of this thesis begins with the analysis of specific problems to be discussed. On one hand, this discussion focuses on capital formation in terms of investment and revenue increases in certain sectors of third world countries. On the other hand, all attempts to deal with real third world growth problems in this study is entirely based on explicit economic and social premises about what is desirable and what are the priorities among desirable goals.

Chile is particularly an interesting country for such a study as the impact of increases in mining revenue on economic growth for a variety of reasons. Unlike many countries in and out of Latin America, Chile has experienced a wide range of foreign sector policies. One of such policies includes the nationalization of Chile's copper mines in 1973 under the leadership of Salvador Allende. Another policy takes into account the need for foreign investors in Chile's mining sector, of which the extraction of mineral resources is indeed a priority for these foreign investors and not contributing to the economic development of Chile.

While increases in revenue and investment in Chile's mining sector have been a particular subject of interest in many studies, there has been little attention on the non-mining sectors, and particularly the issue of mass poverty, high unemployment and income distribution. In order to comprehensively analyze the impact of the mining sector on economic growth in Chile, it is necessary to look at the non-mining sector in addition to the issues of mass poverty, high unemployment and income inequality.

Research Objective

This thesis seeks to achieve the following objectives:

1. To investigate the impact of increases in mining revenue on economic growth in developing countries, using Chile as an example.
2. To analyze specific role played by foreign investors in mining and non-mining sectors of third world countries in general and Chile in particular.
3. Based on the Chilean experience, to draw inferences for other developing countries in and out of Latin America.

Methodology

In order to attain the stated objectives, this study will begin with a comprehensive review of literature on the Chilean economy and the mining sector in particular. Based on the literature survey, the nature of the poverty and income distribution problems will be identified considering its analytical significance in third world nations.

The methodological procedures suggested by the "structural-internationalists" school of thought will be used to analyze the structural and institutional inter-relations within the Chilean economy. The use of the structuralist theory will be meaningful in placing emphasis needed to eradicate poverty, to provide more diversified employment opportunities and to reduce income inequalities in third world countries. These and other objectives are to be achieved within a growing economy, and not only accelerated capital formation that encourages economic growth in third world nations. In addition to these objectives, possible goals will be examined, knowing specifically what ways economic analysis can shed light on these problems. Finally, possible alternative policy approaches will be explored, directed at the elimination of poverty and reduction of excessively wide disparities in third world countries' income with special emphasis on Chile.

CHAPTER II

LITERATURE REVIEW

Various authors have focused their work on the impact of increases in mining revenue on economic growth in developing countries. Such authors as Behrman (1976); Mendez (1979); Allende (1975); Wolfgang F. Friedman and Jene-Pierre Begun (1971); Hall R. Mason; R. Miller; Sale R. Nigel (1975); Theodore Moran (1974); and Martinus Nyhoff (1978) have focused on economic growth as a major priority which can be realized by opening the doors to foreign investors to enter into the extractive industries and other related key sectors of the Chilean economy. The mining sector and its relations to other key sectors has been completely analyzed by these authors noting that there is a bright future for economic growth in Chile if other sectors could be given more investment incentives as compared to the mining sector.

Berhman (1976) discussed the process of economic development in relation to the mining sector of developing countries, using Chile as an example. Such emphasis, according to the author reflects the view that foreign investors can play a key role in the development process of third world countries. In view of this, the exploitation of dynamic comparative advantage and the transfer of technology have been critically analyzed in this book. Analysis of the foreign sector, which is subject to government influence has also had some definite limitations, according to Behrman. This means in many cases, the importance of restrictions in foreign sectors regime has been disregarded. Included among these goals are not only growth, but other factors that are related to a broader definition of the mining sector in relation to economic growth. These factors include external position and the degree of national autonomy, stability in real and nominal terms, resource allocation and structural change, and the distribution of income and other mineral resources. Some of these factors, according to the author, may be complementary and others may be competitive with the good growth.

Mendez (1979) focused on the period 1970-1980 in Chile. A careful reading of each page revealed a sense of reality in economic affairs of which the author examined the relationship between foreign investors and their presence in developing countries. During the years which this book addresses itself to 1970-1980, numerous obstacles were overcome. These obstacles, according to the author, ranged from sound reasonable doubt felt when confronted with the magnitude of the problem, for instance, such problems as the influence of foreign investors in key sectors of developing countries. Although the economic history of Chile has been written in this book as outlined, the author still sees the need to reproduce the historical and economic aspects of this country. This means, for many years, Chile had chosen a certain path to develop based on opening the door to foreign investors.

The former president, Salvador Allende of Chile wrote a book on the country in 1975. Allende talks about the events that affected Chile over the last several years (1964-1973). During the Allende regime, some major policies were undertaken that affected Chile and the world business community. The more obvious effects that occurred under Allende included the nationalization of the foreign-owned copper companies as number one export earner within the mining sector and the strangulation of foreign investors within the Chilean economy. Such attitude as outlined by the author resulted in these foreign investors reducing their financial and technical assistance to Chile's mining sector.

In their analysis on the Chilean economy, Stefan et. al., wrote this book based on their experiences in teaching business and economic courses in graduate schools and executive programs from the early 1960's. Their work focused on the development of managerial skills in handling the problems of foreign investors in developing countries. Thus, according to these authors, there will always be a need for foreign investment in the third world since these third world countries lack both the technical know-how and the needed capital to develop. To have a better understanding of the points made, these authors have divided this text into three major parts. The first part presents the monetary, trade, and regulatory frameworks within which business transactions take place between foreign investors and developing countries. Such transactions according to these authors is usually done on fair basis in that foreign investors provide the needed capital and train manpower whereas the third world countries provide the needed raw materials to be processed.

The second part of this book deals with the assessment and forecasting of cultural economic aspects, and part three is concerning the management of foreign investors in developing countries. Again, these authors clearly point out that the level of literacy is very low in developing countries. As such, these third world countries can not properly manage huge investments made in their respective countries.

In a book by Friedman et. al., the underlying idea of this study began as a research project on joint international business venture between developing and developed countries. According to these authors, this book contains a general analysis of the types of problems and propsects of this new and increasingly foreign investment in certain sectors of developing countries. These authors do indicate that foreign investors invest primarily into the extractive industry of developing countries based on their priorities. Such priorities have been mentioned in terms of profit motives and cost benefit analysis.

In addition to this, Mason et. al., focused their work on the usefulness to policy makers whose plan is to examine the role of foreign investors in the world economy, particularly in developing countries. These authors have examined special areas for foreign investors when investing in developing countries. These areas include selection of entry, selection of technology, profit analysis, financing and organization. The most important as outlined in this text is in the mining sector of developing countries of which high profits can be realized.

The book by Theodore H. Moran gives an analytical history of the formation of the mining industry, specifically the Chilean case from World War II through the end of the Allende regime in 1973. In this book, there is an interaction between Chile and foreign investors of which the Chileans characterized their side as the struggle against dependence. However, from the debates on mineral resources, especially copper, this book abstracts three definite objectives that are associated with the movement against dependency. First, the objective of asserting Chilean sovereignty over its own economic and political life; second, the objective of Chile forcing foreign investors to make more of a contribution to Chile's goals of growth and welfare; third, the objective of freeing Chile from having to contribute "captive production" to corporate system that did not serve Chileans' interest.

Based on the review of each book and author mentioned, each and everyone do emphasize that both foreign investments and savings can increase economic growth in third world countries. In fact, Professor W. W. Roston, in addition to these authors, do indicate that the prescriptive of economic growth and development is simply a matter of increasing national savings and investment. Unfortunately again, the assumptions of Western economic theory are being applied to the actual conditions in third world countries. The Marshall Plan worked because the industrialized European countries receiving aid, possessed the well integrated commodity and money markets, highly developed transport facilities, and well-trained and educated men to convert new capital into high levels of output. The Rostow-Harrod Domar models assume the existence of these same attitudes and arrangements in third world countries. But even at a more fundamental level these authors fail to take into account that the best or more intelligent economic growth strategies can be beyond the control of these third world countries.

One conclusion that can be drawn based on the literature review is that one can not simply claim as most economists did in the 1950's and 1960's that economic growth was highly dependent on supplying foreign capital, foreign exchange and skills to third world countries.

Even though several authors have focused on the mining sector in Chile, the attention or the inter-relationships between the mining sector and the non-mining sector, and more specifically the existence of object poverty, have escaped vigorous analysis. Such omission could seriously slow policy implications and hence the growth process.

CHAPTER III

THEORETICAL FRAMEWORK

Structuralist Theory of Economic Development

While economic progress is an essential component of development, it is not the only aspect because development is not purely an economic phenomenon. In an ultimate sense, development must encompass more than material and financial sides of people's life. Development, therefore, "should be perceived as a multidimensional process involving the reorganization and reorientation of the entire economic and social systems."[10] In addition to improvement in incomes and output, "development also involves radical changes in institutional, social and administrative structures as well as in customs and beliefs."[11]

The literature of the theory of economic development has been dominated by two major strands over the past thirty years. The thinking of the 1950's and early 1960's

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[10] Michael P. Todaro, Economic Development in the Third World (Longman, Inc., New York 1977), p. 56.

[11] Ibid., p. 57.

focuses mainly on the concept of "stages of economic growth" in which the process of development was viewed as a series of successive stages through which all countries must past. It was primarily an economic theory of development in which savings, investments and foreign aid were all that was necessary to enable third world nations like Chile to proceed along an economic growth path that historically developed nations have followed.

The neo-classical theory has been rejected and replaced by the "structural-internationalist" school of thought in this study because the structuralist theory is in direct application to third world problems. The structuralist theory as applied to this study takes into account external and internal institutional constraints on economic growth in developing countries. Thus, "according to the structuralist theory emphasizes policies needed to eradicate poverty, provide more employment opportunities and reduce income inequality."[12] These objectives are to be achieved within the context of a growing economy like Chile, but economic growth per se is not given such status accorded to it by the neo-classical theory.

Unfortunately, the prescriptive of development embodied in the neo-classical theory does not always work, not

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[12]Michael P. Todaro, Economic Development in the Third World (New York: Longman, Inc., 1977), p. 60.

because increases in mining revenue is not necessary to accelerate economic growth in third world nations, but rather it is not a sufficient condition. Also, this theory cannot be applied to the situation of third world countries like Chile because it is based mainly on the assumption of Western economic theory for the actual condition of developing countries. At a more fundamental level, the neo-classical theory fails to take into account the fact that third world nations are a part of a complex institutional system in the most development strategies which can sometimes be nullified by external forces beyond their control. The case of Chile under the Allende regime in the early 1970's is an example of this point. It became misleading to claim as many economists did in the 1950's and 60's that economic growth is simply a matter of removing obstacles and applying various missing elements like capital, foreign exchange, foreign investment, skills and management. All of these became a task in which foreign sources theoretically played a major role. It is because of numerous failures with this economic theory of development, especially among third world intellectuals, that a more recent approach has emerged: an approach that attempts to combine both economic and institutional factors into a social system model of development.

The theory that is applicable to this thesis is the international structuralist theory which views third world countries like Chile as being caught up in a dependence and dominance relationship with rich countries. This theory has two major streams of thought which can be used to directly address the Chilean case.

The neo-colonial dependence is the first which is an indirect outgrowth of Marxist thinking. It attributes the existence and maintenance of third world underdevelopment to the historical evolution of rich country—poor country relationships. A forceful supporter of the international dependence school of thought is Theotonio Dos Santcs of Latin America. Dos Santos argues that, "dominant countries are endowed with technological, commercial, capital and social-political predominance over dependent countries- the form of the predominance varying according to the particular historical movement and can therefore exploit them, and extract part of the locally produced surplus."[13] In support of Dos Santos' analysis are the founders of the neo-marxist school- Baran, Sweezy, and Magdoff who see this surplus drain as a factor for the impossibility of third world countries development. Before these founders of the neo-marxist school found their separate discussions on surplus drain as first outlined by Lenin, they first of all viewed dependency as a concept popularly used in comparative analysis of the third world countries in Asia, Africa and Latin America. It evolved during the 1960's and later found favor

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[13] Ronald H. Chilocote, Theories of Comparative Politics (Westview Press, 1981), p. 297.

in some writings in Africa and Asia.

The concept of dependency was first referred to by Lenin (1967) in his elaboration of the theory of imperialism. Lenin understood capitalist imperialism to be a manifestation of the struggle among the colonial powers for the economies and political dependence of the world. According to Lenin, "dependent nations may develop as a reflection of the expansion of dominant nations or underdevelop as a consequence of the subjective relationship."[14] In additional analysis to the dependency theory, "the Brazilian social scientist, Dos Santos (1975) reaffirmed that outside economic and political influences affect local development and reinforce ruling classes at the expense of the marginal classes."[15] With similar view is the Chilean economist Osvalelo Sunkel who also elaborated on this theory by indicating that the concept of "dependency" links the post war evolution to the nature of the local process of development. This indeed led to a variety of discussion which was extensively analyzed by Fernado Henrique Cardoso (1973), Claire Savit Bacha (1971) and Chilcote (1974). According to Cardoso's examination of the literature of dependency, "national development established itself in Brazil and elsewhere as a response to the prevailing belief that development would occur through the export of commodities or foreign investment."[16] Such a

[14] _Ibid._, p. 335.

[15] _Ibid._, p. 336.

[16] _Ibid._, p. 340.

view is held by Helio Jaguarible (1970) and the founders of the neo-marxist school--Paul Baran and Paul Sweezy (1966), Harry Magdoff (1969) and all other independent Marxist thinkers.

Based on Cardoso's analysis of the dependency theory as already outlined, Bucha as another supporter, set forth his own conceptions. Bucha's first analysis originated from Thomas's Vasconis' (1969) effort to distinguish development from underdevelopment by analyzing relations between foreign investors and host countries. This view was in direct relationship with Dos Santos' ideas and the "new dependency" also known as technological industrial dependence which is now the case with Chile and its foreign investors. In contrast to colonial dependence based on trade export and financial--industrial dependence, the new dependency is a recent phenomenon based on foreign investors. These foreign investors, after the second war invested in industries geared to the internal markets of underdeveloped nations.

After a brief discussion of the dependency theory, it becomes equally important to note that a significant aspect of this theory gives a linkage between the phenomenon of dominance and dependence that exist between developed and developing nations. These relations are found in a wide range of international economic affairs including foreign aid, private foreign investment and the transfer of technology, where these developing nations as a group often appear to be at the mercy of developed nations.

However, the application of the structuralist theory as outlined by its supporters Sweezy, Baran, Lenin, Cardosa, etc., is in direct relationship with the Chilean case. Such relationship is increasingly with respect to natural resources and raw materials, especially when dominant third world nations supplies are able to coordinate their activities. A prime example of this is a substantial amount of the world's raw materials and mineral resources being located in third world nations. In many cases, however, their control and management may still reside primarily with powerful foreign investors from developed nations. For instance, Chile which is the focusing point of this study, in addition to Zambia and Peru, supply almost 80 percent of the world's copper. In commodity exports, Brazil, Colombia, Kenya, Ivory Coast, Uganda and El Salvador provide almost the entire world supply of coffee; while Brazil and Ghana produce most of the world's cocoa. These statistics only stress that the economies of the world today are becoming more and more economically interdependent. Nevertheless, third world nations as a whole have always been and still remain much more dependent on the economic and political policies of dominant rich nations. However, the application of this theory is in direct relationship with the dual phenomenon of Chile's mining sector's persistent economic, technological, commercial, capital, institutional and socio-political dependence on foreign investors. Unlike many developing nations where dependence on foreign investment is considered an evil, Chile's position on foreign investment is indispensible. Through Chile's dependence on foreign investment, its mining sector has not been subject to a set back or neglects. This favorable attitude from foreign investors has resulted in an increase in both investment and export revenue on one hand. On the other hand, key issues as eliminating poverty, reducing unemployment and income inequalities have not been compatible with economic growth within the structure of the Chilean economy.

The second approach to economic growth based on the structuralist theory used in this study is the false paradigm model. This theory attributes third world underdevelopment to faulty and inappropriate advice provided by uniformed international experts. Such experts are usually from developed country assistance agencies such as the World Bank, UNESCO, and the International Monetary Fund. This might not always be true because even those who do not use such approaches do not do any better in terms of policy prescriptions. These experts, according to the structuralist theory, offer sophisticated concepts and complex econometric models of economic growth that lead to inappropriate or simply incorrect policies. Moreover, in government policy discussion much emphasis is being placed on capital output ratios, increasing revenue and growth rates of Gross National Product which are not the only factors of economic growth in the third world economies. As a result, desirable institutional and structural reforms, many of which have been mentioned in previous sections, are neglected. For instance, the achievement of the objective of greater development in Chile is closely related to the target of increased and sustained growth. This is done under stable conditions and a state policy on distribution guarantees that improved wealth reaches all sectors of the country, especially those presently living in poverty. With respect to the functional distribution of income, the following analysis is being made of Chile. Between 1970 and 1978, unemployment has relatively increased from 6.1 percent in 1970 to 10.9 percent in 1978 (see Table 4).

TABLE 4

FISCAL EXPENDITURES OF UNEMPLOYMENT IN CHILE, 1970-1978

Year	Rate of Unemployment (nationwide)	Minimum employment Program (MEP)	Bonus for Additional Hiring
1970	6.1	-	-
1974	9.2	-	-
1975	14.5	34.10	-
1976	13.7	82.67	4.30
1977	12.7	74.03	10.96
1978	10.9	45.37	13.75

Source: Total Population Planning Office/Latin America Demographic Center, Projection of Chilean Population by Sex and by Five-year Age Groups 1950-2000 (Santigo; May 1975), p. 18.

As analyzed, the application of the structuralist theory is in direct relationship with Chile's mining sector, persistent economic, technological, commercial and capital formation on the dependence of foreign investment to increase revenue. Such dependence has dealt, to a certain extent, with increases in capital and not dealing with combating mass poverty, reducing high unemployment and reducing income inequalities. With the application of the structuralist theory to Chilean problems of economic growth, a shift from capital increases to dealing with poverty, unemployment and inequalities will be realized.

CHAPTER IV

ANALYSIS OF WORK

A simple and convenient way to approach the twin problems of poverty and income inequality in this thesis is by pulling together some recent evidence from a variety of sources in third world nations.

The first step in determining the significance of the income distribution and poverty problems in third world countries is based on recent data collected from sixteen third world nations on the percentage shares in total national income going to different percentile groups. This is done in Table 5. Table 5 gives a magnitude of income inequalities in these developing countries. For instance it can be noticed from the last column that the average income shares for different percentile groups among all sixteen countries is very low. On the average the poorest 20 percent of the population receives only 4.3 percent of the income while the highest 10 and 20 percentile groups receive 37.6 and 54.8 percent respectively. The same explanation specifically applies to Chile which is the principle focus of this study. From the same data presented in Table 5, the poorest 20 percent of the Chilean population received 4.4 percent of the income in 1968 while the highest 10 percent and 20 percent received 34.8 percent and 51.4 percent respectively.

TABLE 5

DATA COLLECTED FROM 16 THIRD WORLD COUNTRIES ON PERCENTAGE SHARES IN TOTAL NATIONAL INCOME GOING TO DIFFERENT PERCENTILE GROUPS

	Lowest 20%	2nd Quintile	3rd Quintile	4th Quintile	Highest 20%	Highest 10%	Year
Argetina	4.4	9.7	14.1	21.5	50.3	35.2	1970
Brazil	2.0	5.0	9.4	17.0	66.6	50.6	1972
Ceylon	7.5	11.7	15.7	21.7	43.4	28.2	1970
Chile	4.4	9.0	13.8	21.4	51.4	34.8	1968
Costa Rica	3.3	8.7	13.3	19.9	54.8	39.5	1971
Ecuado	2.5	3.9	5.6	14.5	73.5	n.a.	
Egypt*	4.2	9.8	15.5	23.5	47.0	n.a.	
India	6.7	10.5	14.3	19.6	48.9	35.2	1965
Kenya*	3.8	6.2	8.5	13.5	68.0	n.a.	
Rep. of Korea	7.0	11.0	15.0	22.0	45.0	n.a.	
Mexico	2.9	7.4	13.2	22.0	54.4	36.7	1977
Peru	1.9	5.1	11.0	21.0	61.0	42.4	1972
Phillipines	3.7	8.2	13.2	26.0	63.9	n.a.	
Tanzania*	5.0	9.0	12.0	17.0	57.0	n.a.	
Venezuela	3.0	7.3	12.9	22.8	54.0	35.7	1970
Average	4.3	8.3	12.7	19.9	54.8	37.6	

Source: World Development Report, 1979, Annex Table 24, Overseas Development Council, The United States and World Development Agenda 1979 (New York: Praeger, 1979) Table A-16, p. 80.

* 1980 Yearbook of International Trade Statistics, Annual Statistique Du Commerce International, p. 275.

After taking a critical analysis of income inequality in developing countries, the next task will now be to test the degree of absolute poverty in a variety of third world nations with specific focus on Chile again. "The extent of absolute poverty can be defined by the number of people living below a specific minimum level of income which is known as an imaginary international poverty line."[17] According to World Bank economists, "Ahluwalia, Carter and Chenery, almost 40 percent of the population of developing countries live in absolute poverty."[18]

Table 6 gives estimates of absolute poverty levels in 1975 with projections to the year 2000. In order to have a broad knowledge of developing nations, data has been collected on thirty-six third world countries in and out of Latin America on projections made on absolute poverty levels. These countries have been divided into low (less than $150 per capita income measured in 1970 U.S. dollars), medium (between $150 and $325), and high ($325 to $1,300) per capita income levels. The projections indicate a decline in poverty level but not an immediate eradication of poverty. However, this projection is entirely based on several optimistic assumptions regarding future trends in real economic growth and the distribution of its benefits.

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[17] Michael P. Todaro, Economic Development in the Third World (Longman, Inc., 1977), p. 130.

[18] Ibid., p. 138.

TABLE 6

ESTIMATES OF ABSOLUTE POVERTY LEVELS IN 1975 WITH PROJECTIONS TO THE YEAR 2000
FOR 36 THIRD WORLD NATIONS LOW (LESS THAN $150 PER CAPITA INCOMES)
MEDIUM (BETWEEN $150 - $325) AND HIGH ($325 - $1300)

Country Group A (Under 150)	1975 GNP per capita	GNP Growth Rates 1960-75	GNP Growth Rates 1975-2000	Share of Lowest 40% 1975 est.	Share of Lowest 40% 2000 projs.	Percentage Population in Poverty '75	No. of people in Poverty (millions) 1975 est.	No. of people in Poverty (millions) 2000 Projs.
Bangladesh	72	2.4	4.6	20.1	17.4	60	52	56
Ethiopia	81	4.3	4.1	16.8	15.0	62	19	25
Burma	88	3.2	2.5	15.7	15.2	56	20	29
Inodonesia	90	5.2	5.5	16.1	12.7	62	76	30
Uganda	115	4.0	3.2	14.4	14.0	45	6	12
Zaire	105	4.3	4.8	14.6	12.7	49	11	13
Sudan	112	3.0	6.0	14.5	12.0	47	10	8
Tanzania	118	6.8	5.4	14.3	12.3	46	8	9
Pakistan	121	5.6	5.2	16.5	14.5	34	32	26
India	108	3.6	4.5	17.0	14.6	46	277	167
SUBTOTAL	99	3.8	4.7	16.7	13.9	49	510	375
Group B ($150-325)								
Kenya	168	7.0	5.9	8.9	7.7	48	7	11
Nigeria	176	7.1	5.2	13.0	11.8	27	27	30
Philippines	182	5.6	7.3	11.6	10.3	29	14	6
Sri Lanka	185	4.2	3.8	19.3	18.2	10	2	2
Senegal	227	1.5	4.0	9.6	8.9	29	1	2
Egypt	238	4.2	6.1	13.9	13.5	14	7	5
Thailand	237	7.5	6.7	11.5	10.9	23	13	4
Ghana	255	2.7	2.1	11.2	11.9	19	2	6
Moroco	266	4.4	6.2	13.3	10.9	16	4	2
Ivory Coast	325	7.7	5.8	10.4	10.4	14	1	1
SUBTOTAL	209	5.5	5.8	12.0	10.1	24	81	70

TABLE 6 - Continued

Country Group C (325-1300)	1975 GNP per capita	GNP Growth Rates 1960-75	1975-2000	Share of Lowest 40% 1975 est.	2000 proj.	Percentage Population in Poverty '75	No. of people in Poverty (millions) 1975 est.	2000 Proj.
Korea	325	9.3	8.1	16.9	19.1	6	3	1
Chile	386	2.3	6.0	13.1	14.3	9	1	1
Zambia	363	3.4	4.9	13.0	12.9	7	0	1
Colombia	352	5.6	7.4	9.9	11.5	14	5	2
Turkey	379	6.4	6.3	9.3	10.4	11	6	4
Tunisia	425	6.1	7.5	11.1	13.3	9	1	0
Malaysia	471	6.7	6.7	11.1	13.3	8	1	1
Taiwain	499	9.1	6.2	22.3	24.4	4	1	0
Guatelma	497	6.1	6.0	11.3	12.4	9	1	1
Brazil	509	7.2	7.0	9.1	11.9	8	16	7
Peru	503	5.7	6.3	7.3	8.8	15	3	2
Iran	572	9.5	7.2	8.2	11.0	8	5	2
Mexico	758	6.8	6.8	8.2	10.8	10	8	6
Yugoslavia	828	5.8	6.1	18.8	23.9	4	1	0
Argetina	1097	4.0	4.5	15.1	18.5	3	1	1
Venezuela	1288	5.8	6.8	8.5	12.9	5	1	1
SUBTOTAL	577	6.4	6.9	9.9	10.0	8	54	30
Total	237	5.4	6.2	9.8	6.5	35	644	475

Source: M.S. Ahluwalia et. al., "Growth and Poverty in Developing Countries," Journal of Development Economics 6 (September 1979), Tables 1 and 2, pp. 44-52.

Another point becomes interestingly important when analyzing the data in Table 6. That is per capita incomes per se do not guarantee the absence of large numbers of absolute poverty. This is so because the share of income accruing to the lowest percentile of a population can vary widely from country to country. It is indeed possible for a country with a high per capita income to have a large percentage of its population below the international poverty line than a country with a low per capita income. For instance, in Table 6 Taiwan and Guatemala had approximately the same level of real per capita income in 1975, but the proportion of Guatemala's population below the poverty line was more than twice as large as that of Taiwan. Similarly, and more important, Korea and Chile had approximately the same amounts of GNP per capita in 1975, but Chile had a lower GNP growth rate between 1960 and 1975, and even a lower projected growth rate from 1975-2000. This also show that problems of poverty and unequal distribution of income are just part of the natural economic growth process in developing countries in general and Chile in particular. The data and analysis suggest that capita formation is just one of the many solutions to economic growth. For instance, with substantial increase in both investment and revenue of Chile's mines between the period 1961-1980, this country still experience a low GNP growth rate of 2.3 from 1960-1975

TABLE 7

PUBLIC INVESTMENT PROJECTS, 1974-1976 ($ MILLION)

	1974		1975		1976	
	Internal Financing	External Financing	Internal Financing	External Financing	Internal Financing	External Financing
Infrastructure	288.8	163.0	422.0	174.9	476.2	171.0
Transportation	163.9	76.1	249.6	58.4	276.7	58.6
Energy	113.5	74.6	171.3	115.4	198.4	111.3
Miscellaneous	11.4	12.3	1.1	1.1	1.1	1.1
Productive Sectors	324.1	334.4	389.6	416.0	380.2	355.5
Agriculture	119.0	105.6	122.6	96.5	118.9	96.5
Mining	100.0	104.9	147.4	179.5	146.8	140.5
Industry	105.1	123.9	119.6	140.0	114.5	118.5
Social Sectors	428.3	11.8	339.7	19.7	48.9	18.7
Education	24.4	.6	24.5	16	24.4	.6
Health	3.6	10.9	5.7	15.9	5.7	15.9
Housing	357.1	-	279.2	-	-	-
Urban Development	43.2	.3	30.3	3.2	18.8	2.2
TOTAL	1,041.2	509.2	1,151.3	610.6	905.3	545.2

Source: Chile After Allende: Prospects for Business in Changing Market (New York, 1975), p. 51.

and even a greater percentage of the population of 9 percent being considered poor. Table 7 shows various public investment projects in Chile from 1974-1976. With such investments from both internal and external sources, Chile still had its problems of mass poverty, high unemployment and even a mal-distribution of its income.

Despite the chaotic economic situation, there have been various plans drawn from 1974-76, according to Table 8. More than a third requires foreign financing, but this does not necessarily mean that foreign suppliers will put up the funds. International and national financial agencies are in the position to keep funds flowing into the country. With such notion, many will predict a higher economic growth for Chile but other factors such as income inequality and poverty level might just prevent the Chilean economy from growing economically as fast as expected. However, similar analysis follows with respect to revenue received from Chile's mining sector during the period 1961-1980. Again with such substantial increases in revenue, Chile like any other developing country, was experiencing its own economic growth problems. Unemployment was on the rise, poverty was growing faster than even expected. Table 8 shows revenue received from Chile's mining sector from 1961 to 1980.

TABLE 8

REVENUE RECEIVED FROM CHILE'S MINING SECTOR, 1961-1980 (IN U.S. $ MILLION)

Year	Revenue (in U.S. $ million)
1961	501.1
1962	588.0
1963	640.7
1964	688.7
1965	611.7
1966	797.0
1967	802.3
1978	1676.9
1969	1016.3
1970	1829.3
1971	671.6
1972	630.5
1973	1080.8
1974	1752.9
1975	1003.8
1976	1367.8
1977	1304.9
1978	1318.1
1979	1943.8
1980	2591.2
TOTAL	22818.2

Source: 1980 Yearbook of International Trade Statistics, Annual Statistique Du Commerce International, p. 100.

As can be seen in Table 8, there was an increase in earnings from Chile's mine, among other sectors. With such an increase in mining revenue in addition to other export sectors of the Chilean economy, there was still many problems confronting the Chileans. Mass poverty, unequal distribution of income, and high unemployment, among other factors, prevented Chile from growing fast as expected.

CHAPTER V

CONCLUSION AND SUMMARY OF WORK

Economic growth as has been analyzed in this study results not only from the growth in quantity and quality of resources and improved technology, but also from a social and political structure that is conducive to such change. Growth demands a stable but flexible social and political framework that is capable of accommodating and even encouraging a rapid structural change. It also requires a social environment capable of resolving the inevitable interest groups and sectoral conflicts that accompany such structural change. In short, the failure of many developing countries like Chile to generate more rapid rates of economic growth in spite of heavy investments in human and physical resources can be traced to their social and political institutions and the power of certain vested interest groups.

However, based on the analysis of the international structuralist model in this thesis little or no emphasis is being placed on accelerating economic growth through the elimination of poverty, unemployment and income inequality as an index of development in third world countries. Instead, going through a critical analysis of capital formation in third world countries, and more specifically that of Chile, more emphasis has been on needed structural and institutional reforms (both domestic and international). In extreme cases, there is a need for third world nations to expropriate financial and physical asserts in order to eradicate absolute poverty, provide expanded employment opportunities, lessen income inequalities, and raise the general levels of living (including, health, education, and cultural environment) for the masses of people.

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